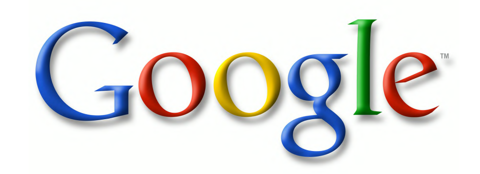


Levy-The Peace of Justice-1921




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THE PEACE OF JUSTICE

BY

RAPHAEL-GEORGES LEVY
MEMBER OF THE INSTITUTE OF FRANCE
SENATOR OF FRANCE

With a Preface By

RAYMOND POINCARÉ
FORMER PRESIDENT OF THE
FRENCH REPUBLIC

And an Appendix Containing the Protocol of the Reparations Commission of April 28, 1921



GEORGE H. DORAN COMPANY

Seventy-five cents net

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RAYMOND POINCARÉ — who was driven from his post because of stubbornness in refusing Germany a "just" settlement as recommended by Dawes

FORMER PRESIDENT OF THE FRENCH REPUBLIC

And an Appendix Containing the Protocol of the Reparations Commission of April 28, 1921.

See Benn's "Europe after 1914", Chaps. 10 and 12 for actual, unbiased facts regarding Germany (+ France) and Reparations as they have worked out from 1918-1929.



NEW YORK

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PREFACE

None is more highly qualified than Mr. Raphael-Georges Levy to undertake the task of examining the Treaty of Versailles and the grave problem of Reparations. A political figure, as also member of the Institute of France, an Economist and Senator, he is better informed than any one else on the great European questions and on the true financial conditions of the countries of the Old World.

After a conscientious inquiry into the facts and figures he has come to the conclusion that the vanquished are able to pay their debt progressively and that justice can be done without risk of bringing about the downfall of Germany. His abundant logic, the force of his proofs, the undeniable precision of his calculations can leave no doubt of this in the most critical minds.

He shows clearly how specious and erroneous is the theory advocated in England by Mr. Keynes, which the Germans so promptly made their own in order to try and escape all their obligations. To brilliant paradoxes he opposes realities, and fictions most ingenious he answers by conclusive evidence.

Our friends in Great Britain and in America will read with great interest these pages full of substance. They have largely contributed to the victory of

right. They will surely not be content to-day that the right of victory shall be overlooked.

France has no imperialistic thought. Having recovered the provinces which were torn away from her and never having thought to achieve any territorial annexations, France is not now nor was she hitherto under the spell of conquest.

France did not declare war, did not seek war, did not desire war. France was subjected to war; and the day she won, with the help of her allies, she let fall her sword without hatred, without rancour.

But France has suffered dreadfully from long-drawn hostilities of which her invaded territories were the scene. In all her northern and north-eastern provinces, her towns and villages were destroyed, her fields ravaged, her forests razed, her mills and factories pillaged or burned, her mines flooded.

On the battlefields France lost all the flower of her youth, fourteen hundred thousand of her children—that is to say, about as many human lives as were sacrificed by all the other allied and associated nations combined. flagrantly mistaken!

Germany lost 1,773,700 and Russia more than that. Why not Russia an ally?

Thus France finds herself grievously weakened; and whatever her courage, whatever her will to recover, she cannot single-handed face the frightful task of restoring her devastated regions. In order not to be borne down by the burden, she must be assured of having an effective means of recovery against Germany and of being reimbursed for the advances she was compelled to make to the victims of the war.

PREFACE

Does Germany, the debtor, need time in order to pay?—time will be granted her; in the beginning can she pay only in kind?—the propitious moment will be awaited to ask her to pay in specie.

No one wishes to either strangle or starve her; on the contrary, the whole world wishes, in Germany's own interest and in that of others, that she may see better days; but as she is industrious and enterprising she is certain to recover rapidly, she will soon be in a position to devote part of her income to the payment of her debt and to give, if need be, meanwhile, security and pledges to her creditors.

What is essential is that, after having launched upon the world the most ghastly catastrophe known to the world, Germany shall not seek to get out of it by playing before us the comedy of irretrievable misery and everlasting insolvency.

Mr. Raphael-Georges Levy has shown beyond doubt that our claims are not excessive, that they conform not only to the stipulations of the treaty, but also to the precepts of right, and are not of a nature to hinder, in future, a fresh economic development of Germany.

Since our American friends have reserved to themselves the liberty of revising, in so far as they are concerned, the conditions of peace, I have no doubt that they will find in Mr. Raphael-Georges Levy's book the strongest reasons for approving all that the Treaty contains which is of vital interest to France, and particularly all that concerns reparation for our losses.

RAYMOND POINCARE.

NOTE

This edition is an abridgment of the original French edition and has been prepared by Mr. Maurice Léon of the Bar of New York with the coöperation of Mr. Charles Stewart Davison and the assistance of Mr. M. Wm. Biggs.

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CHAPTER I

INTRODUCTION

THIS book, which I have entitled, "The Peace of Justice," deals, above all, with the Treaty of Versailles, which will make the date of its signing, June 29th, 1919, memorable for all time. Of this document I have considered only the financial and economic clauses.

I have thought that it would serve a useful purpose to marshal these clauses before the reader's eyes, for since the interested nations entered into the solemn engagements involved by the treaty a portion of Europe has been wrapped in a strange atmosphere. Instead of taking steps to carry out loyally the terms accepted by them, certain nations seem now to have no other objects than to evade their duty, conceal their resources, depict their own condition as being infinitely more deplorable than is actually the case, and balk at the effort necessary to effect reparation that cannot be dispensed with. One cannot ignore the striking contrast between this attitude of the Germanic peoples, who, no sooner than the treaty was signed, sought every means of avoiding

the performance of their solemn contracts, and the action of the French people who, instead of resting upon the laurels of victory, are returning undaunted to their labors in field and factory. Only two years after the signing of the peace, France is gathering in a harvest which approaches the crops of before the war, in spite of the fact that extensive tracts of land are still unfit for cultivation. Our factories, if they could only be supplied with the necessary quantities of coal, as stipulated by the Treaty of Versailles, would also be producing on a large scale, and the manufacturers are now putting forth superhuman efforts to set every machine in motion as formerly. Statistics have been published showing with what degree of completeness railways, roads, bridges, and public works of all kinds have been restored or repaired in the invaded regions. They form an eloquent commentary on the prodigious endeavor of our population.

Meanwhile the state of mind existing among the vanquished is betrayed by their passive and underhand resistance to the carrying out of many articles of the treaty. Unfortunately the obstacles placed in the way of fair fulfillment of promises have not arisen only in the direction where they might have been expected. Incredible though it may seem, there have been found among the Allies certain persons of singular mental trend who have closed their eyes to all the burdens which the war imposed on the belligerents except those which the vanquished must bear. One writer, whose book has had a wide circulation among the Anglo-Saxon

nations, took it upon himself to condemn the Treaty of Versailles. He undertook to prove that Germany was incapable of carrying out the majority of the engagements which she made.

Our object is to prove the contrary. Whether we consider the situation in terms of the absolute or the relative, Germany can pay. Absolutely, because her wealth, vast in 1914, is still great; relatively, because she has not been organically injured and her capacity for production, both agricultural and industrial, is unimpaired, and because Germany still has the full use of her resources, while it will take France, victorious but ravaged by her enemy's ruthless warfare, long years of unremitting toil to rebuild the ruins of the north and the east.

There is either misconception or lack of comprehension of that stipulation, repeated in several places in the treaty, which invites those who are charged with the task of applying it to inform themselves of Germany's capacity to pay. It is not a question of ascertaining whether or not her tangible assets would allow Germany at this very moment to turn over the 200 billion francs, a figure at which the minimum amount of damages suffered by France can be estimated without looking below the surface. It is simply a question of finding out whether Germany, having been acknowledged a debtor in this amount or any other amount established by estimating the damages prior to May 1st, 1921, in accordance with the treaty terms, is capable of paying interest and principal. To propound this ques-

tion is to answer it. The data which we are giving to our readers will allow them to realize how easily Germany can assume this obligation.

France has just given a fine example of fiscal courage by doubling her taxes all at once, creating 10 billion francs of new income, which from 1921 will balance her ordinary budget. Is it admissible that Germany should not do as much? It can be seen immediately how large a sum would be thus raised, considering that Germany has a population of 65 millions. If the French nation, with a population of 38 millions, can bear taxation to the extent of 20 billion francs, Germany should be able to raise more than 34 billions on the same basis of assessment. Germany is capable of meeting in full the obligations which she has accepted.

It is well known that the Teutons are expert in disguising the truth. In 1870 they succeeded in making the world believe that we had been the aggressors. In 1914 the Kaiser reiterated that he did not desire war. In 1920 the Germans were whining over the burden imposed upon them. The refrain of their lamentation was, "We cannot pay." It would be unpardonable weakness if we were to let ourselves be moved by such jeremiads. There are too many who are prone to forget. The thought of our ravaged provinces should be present in the minds of the allied peoples night and day. The memory of the horrors committed by the invader is sufficient to make us appreciate how just it is that he should make reparation. Consideration of the plans of conquest which he had prematurely drawn up leads us

to the conclusion that we have been too soft and moderate in our demands. We become convinced that what we asked—and obtained in promise—is a minimum, and that consequently there is only one policy open to us henceforward, to see that the treaty of 1919 is carried out to the letter.

It would be well if this faithful picture of the actual situation in 1920 on both sides of the Rhine might serve to invigorate the vacillating wills of some of our allies. Unity of command gave us victory on the battlefield. Let us give the Germans to understand that the statesmen of the allied powers are united in their determination to obtain everything to which they are entitled. A people's capacity to pay is not measured alone by taking an inventory of the material wealth which at a certain moment happens to have been accumulated within that people's territory. It depends much more on the capacity for production and indeed on the people's will to work. This last factor is the essential one. It is the factor which must be defined through the certainty that we will make it clear to the Germans that they will not be permitted to evade the fulfillment of their obligations.

It has been justly said that the result of a battle depends, above all, upon the conviction of the commander who has confidence in victory and makes that confidence felt. It is because he never ceased to feel convinced of victory over his enemy that Foch triumphed. Let our diplomats, our ministers, our financial envoys and other experts become imbued with this simple truth, that we are asking Ger-

many to return us half the amount of what we spent or lost in resisting her criminal invasion; that we will not abate our just demands by a single franc, by a ton of coal or one head of cattle. From the moment when they are sure that they will have to pay, then the Germans will begin to pay and to restore.

It is our hope that this volume will help to enlighten our fellow-countrymen and our allies. May it strengthen the resolution of those who at this time have the responsibility of administering our public affairs.

CHAPTER II

THE ECONOMIC ASPECT OF THE TREATY OF VERSAILLES

I. How the Treaty Took Form

THE nations which have just passed through the most terrible ordeal that the world has ever known, a war unprecedented in respect of the sacrifices in men and wealth which it entailed for the belligerents, may be compared to a convalescent still subject to relapses. They might have expected that with extreme care nature would by now have finished restoring to them sufficient health to resume their normal life. Unfortunately that hope has proved to be unrealizable. The greater the losses, the greater is the need for speed in repairing them. The longer the majority of the healthy population is forced to remain idle, the more energy must the survivors put forth to intensify the output of field and factory. This outlook, indeed, has no terror for the energetic peoples who have given full measure of courage and endurance in such warfare as the imagination of the most intrepid had been incapable of conceiving.

The Treaty of Versailles was esentially a compromise between various opinions, and for that reason

it gives guarantees of moderation upon which too much stress cannot be laid. We shall now examine the economic aspect of that treaty.

II. Fundamental Clauses

The fundamental clauses of the treaty from the economic point of view are contained in Part VIII, entitled, "Reparations." First of all comes Article 231, which establishes the basic principle upon which the contract rests.

Article 231. "The Allied and Associated Governments affirm and Germany accepts the responsibility of Germany and her Allies for causing all the loss and damage to which the Allied and Associated Governments and their nationals have been subjected as a consequence of the war imposed upon them by the aggression of Germany and her Allies."

The next article (232) mitigates in large measure the rigor of what is implied as a logical outcome of the foregoing article:

Article 232. "The Allied and Associated Governments recognize that the resources of Germany are not adequate, after taking into account permanent diminutions of such resources which will result from other provisions of the present treaty, to make complete reparation for all such loss and damage."

This clause is explained later. It implies that the victors have waived restoration of all their outlay for waging the war, in a manner contrary to custom

and to what Germany exacted from France in 1871. Would not the Allies have been within their rights in demanding the payment of those sums? They confined their demands, however, to the following:

"The Allied and Associated Governments, however, require and Germany undertakes that she will make compensation for all damage done to the civilian population of the Allied and Associated Powers and to their property during the period of the belligerency of each as an Allied or Associated Power against Germany by such aggression by land, by sea, and from the air, and in general all damage as defined in Annex I hereto."

These damages, specified in Annex I of this section, are defined as follows:

ANNEX I

Compensation may be claimed from Germany under Article 232 above in respect of the total damage under the following categories:

(1) Damage to injured persons and to surviving dependents by personal injury to or death of civilians caused by acts of war, including bombardments or other attacks on land, on sea, or from the air, and all the direct consequences thereof, and of all operations of war by the two groups of belligerents, wherever arising.

(2) Damage caused by Germany or her Allies to civilian victims of acts of cruelty, violence or maltreatment (including injuries to life or health as a

consequence of imprisonment, deportation, internment or evacuation, of exposure at sea or of being forced to labor), wherever arising, and to the surviving dependents of such victims.

(3) Damage caused by Germany or her Allies in their own territory or in occupied or invaded territory to civilian victims of all acts injurious to health or capacity to work, or to honor, as well as to the surviving dependents of such victims.

(4) Damage caused by any kind of maltreatment of prisoners of war.

(5) As damage caused to the peoples of the Allied and Associated Powers, all pensions and compensation in the nature of pensions to naval and military victims of the war (including members of the air force), whether mutilated, wounded, sick or invalided, and to the dependents of such victims, the amount due to the Allies and Associated Governments being calculated for each of them as being the capitalized cost of such pensions and compensation at the date of the coming into force of the present treaty on the basis of the scales in force in France at such date.

(6) The cost of assistance by the Government of the Allied and Associated Powers to the prisoners of war and to their families and dependents.

(7) Allowances by the Governments of the Allied and Associated Powers to the families and dependents of mobilized persons or persons serving with the forces, the amount due to them for each calendar year in which hostilities occurred being calculated for each Government on the basis of the average

scale for such payments in force in France during that year.

(8) Damage caused to civilians by being forced by Germany or her Allies to labor without just remuneration.

(9) Damage in respect of all property wherever situated belonging to any of the Allied or Associated States or their nationals, with the exception of naval and military works or materials, which has been carried off, seized, injured or destroyed by the acts of Germany or her Allies on land, on sea or from the air, or damage directly in consequence of hostilities or of any operations of war.

(10) Damage in the form of levies, fines and other similar exactions imposed by Germany or her Allies upon the civilian population.

The destruction resulting from Germany's methods of warfare is such that the enforcement of the foregoing conditions will be a heavy burden. It is nevertheless evident that such conditions constitute the minimum which the victors could have exacted. It was the duty of those who drew up the treaty to enumerate completely the damages caused and the financial consequences thereof.

Considering that Belgium had suffered more particularly from the violation of treaties, especially of the Treaty of 1839, which guaranteed her neutrality, the Allies demanded that Germany should restore to her all the sums which Belgium had borrowed from the Allied and Associated Governments up to

the time of the armistice, November 11th, 1918, with interest at 5 per cent. The sum of these amounts will be determined by the Reparations Commission, and the German Government undertakes to issue immediately an amount of special bearer bonds, corresponding to that grand total, payable in marks on May 1st, 1926, or, at the option of the German Government, on May 1st of any year prior to 1926.

All the economic clauses were weighed by those who framed the treaty in a spirit eloquently illustrated in the reply of the Allied and Associated Powers to the remarks of the German delegation upon the terms of peace:

"There exists on the part of the Allied and Associated Powers no intention of preventing Germany from taking her proper place in international trade. Provided that she fulfills the conditions of the peace treaty, and provided also that she gives up the policy of aggression and greed which have characterized her methods in business as well as politics, the intention of the Powers is that Germany shall enjoy equitable treatment in respect of the purchase of raw materials and the sale of merchandise, allowance being made for temporary measures taken in the interest of the countries devastated and weakened by Germany's act."

The conditions governing reparations limit the sums payable by Germany to the amount of damages caused to the civil populations. They involve no act of interference in the interior life of Germany.

The object of the treaty being to rehabilitate, so far as possible, the civil victims, and to restore their property to a pre-war condition, there has been created a permanent organization whose task consists of keeping account of this huge operation, regulating the infinitely varied factors entering into the matter of restitution in kind or in cash, supervising, day by day and hour by hour, the execution of the numerous clauses of the most complicated international instrument that has been known in diplomatic history. This organization is the Reparations Commission.

III. The Reparaitons Commission

The Reparations Commission has in a general way the broadest powers of control and action in respect of the reparations problem; its scope includes the interpretation of the terms of the treaty. It must conform to the following provisions:

Every fraction of the total amount of verified credits which shall remain unpaid, whether in gold, ships, securities and merchandise, or otherwise, shall be guaranteed by Germany through handing over an equivalent amount of bonds or other securities by way of collateral, for the fraction of the debt involved.

In order to facilitate and carry out the immediate restoration of the economic life of the Allied and Associated Nations, the Commission shall receive from Germany, as guarantee and acknowledgment of her debt, a first deposit of gold bearer bonds,

exempt from taxes of every kind which may be imposed by the German Empire or states. These bonds shall be handed over on account, the gold mark to be converted at the option of the creditors into pounds sterling payable in London, gold dollars payable in New York, gold francs payable in Paris or gold lire payable in Rome.

Of these bonds 20 billions shall be issued at once, maturing at the latest on May 1st, 1921, without interest. To amortizing these bonds, shall be applied particularly the deposits which Germany has undertaken to make (Article 235) in gold, merchandise, ships and securities, deduction being made of the sums allocated to the repayment of expenses of maintaining the troops of occupation and to the payment of expenses incurred for food and materials required by reason of this occupation. Bonds which have not been amortized by May 1st, 1921, shall be exchanged for bonds of the type specified hereunder.

Immediate issue shall be made of bonds for 40 billion gold marks, bearing interest at 2½ per cent from 1921 to 1926, and from the year 1926 at 5 per cent, with an addition of 1 per cent for amortization of the principal.

At the same time there shall be handed over a written undertaking to issue, by way of a new deposit—but only after the Commission has been satisfied that Germany can assure the payment of the interest and amortization fund for the said bonds—40 billion marks in 5 per cent gold bearer bonds.

Other issues, by way of acknowledgment, indebtedness and security, may be demanded on terms which the Commission may determine later.

The Reparations Commission has opened an account for each of the interested powers. It hands over to each a certificate stating that it holds for that power German bonds or other security given by Germany on account of her debt for reparations. These certificates are drawn to order and may be transferred after indorsement. The German Government will be debited, from May 1st, 1921, with the interest, provisionally fixed at 5 per cent, on the amount of its debt, as determined by the Commission.

In case of failure on the part of Germany to fulfill any one of her obligations entailed by this section of the treaty, the Commission shall notify all the interested powers of that failure. The steps which these powers shall then take, and which Germany has agreed not to consider as acts of hostility, may include prohibiting acts and economic and financial reprisals.

The payments, which must be made in gold or its equivalent, may be accepted by the Commission in the form of movable or immovable property, enterprises, rights and concessions in German territory or outside her territory, ships, bonds, stocks or securities of any other nature, or in coinage of Germany or other states, the value of such to be determined at a just and equitable rate by the Commission. The Commission shall be dissolved when Germany and her allies have paid off in full the sums due by them.

IV. Direct Application of Germany's Economic Resources to the Restoration of the Invaded Regions

There are perhaps no conditions of the treaty in which its true spirit appears more clearly than in those dealing with the direct application of the economic resources of Germany to the material restoration of the invaded regions. To this end the Allied and Associated Powers are to communicate to the Reparations Commission lists indicating the number of animals, machines, equipment, lathes and similar articles of commercial nature which have been seized, worn out or destroyed by Germany, or destroyed as a direct consequence of military operations, and which the powers wish to see replaced by equivalent animals or articles from German territory. The same powers shall indicate the material necessary for reconstruction, machines, heating apparatus, furniture and other articles, which shall upon their demand be produced and manufactured in Germany and delivered for the reconstruction of the invaded regions.

The spirit of moderation, which is the spirit of the treaty, inspired the stipulation by virtue of which it is incumbent upon the Commission to find out in what measure Germany is capable of furnishing these materials and animals. It is enjoined upon the Commission to take account of the internal needs of Germany in relation to the maintenance of her social and economic life. It shall also take stock of the prices and dates at which the articles in question can be obtained in the Allied and Associated Countries

and compare them with those applicable to the corresponding German articles. It is specified textually that the general interest which the allied and associated governments have is that the industrial life of Germany shall not be disorganized to the extent of compromising its capacity to fulfill the other acts of reparation demanded of her. There shall be demanded of Germany machines, equipment, lathes and other similar articles of industrial use only if stock of such articles is available and for sale. On the other hand, the demands for such articles shall not exceed 30 per cent of the number of such articles in use in any German plant. The Commission shall give representatives of the German government the opportunity to be heard with regard to their capacity to furnish the said materials, animals or articles.

Who would dispute the leniency of all these clauses, carefully studied and framed so that what must be restored by Germany to the Allies shall not cripple the resumption of normal economic life in Germany? Constant care for justice appears in the clauses relative to estimating the value of the payments in kind to be made by the Germans. The Commission is to determine this value. The Allied and Associated Governments which are to receive these goods accept the condition that they shall be debited with the value thereof and acknowledge that the corresponding sum shall be considered to have been paid. Precaution is carried even to ordering the Commission to see that the sums carried to the credit of Germany shall represent the normal value of the

work involved, of the materials delivered by Germany, and that the amount of the claim made by the interested power shall be abated to the extent of what that power shall have received.

Germany has agreed to deliver coal to the Allies as follows: 7 million tons per year to France for ten years; 8 million tons per year for ten years to Belgium; to Italy quantities increasing from 4½ to 8½ million tons for ten years; and finally to the Grand Duchy of Luxembourg a quantity equal to that which Germany sold to it before 1914. The whole forms a total of about 25 million tons peyear. In 1913 the German coal production war 191 million tons, of which 19 were consumed at ths mine and 33 exported, leaving 139 million tons for domestic requirements. Before the war France rerquired 60 million tons annually and imported one-third. French production of 40 million tons has been reduced by half by the devastations. Thus we have now only one-third of the fuel we need. Did we go beyond our rights in requiring Germany to deliver quantities which will not be sufficient, even if fully delivered, to put us back in the position in which we were in 1913? With the 20 million tons which Germany must deliver to us for some years to replace the production of the devastated mines we shall be receiving in all only 27 million tons from Germany, which added to our production of 20 million tons gives only 47 million tons, namely, one-fifth less than our 1913 consumption. Germany by going to work and increasing her production can meet both her requirements and her obligations.

In addition to coal, Germany is bound to supply France for three years with only 30 thousand tons of sulphate of ammonia, 35 thousand tons of benzol, 50 thousand tons of coal tar, the latter being replaceable by distillation products, such as light oils, heavy oils, naphthalene or resin. The price shall be that which would be paid by German buyers.

Germany is to give the Reparations Commission a sixty-day option on the delivery of dyestuffs and pharmaceutical products to the extent of half the quantity of such products available in Germany. Germany is further to give an option on the delivery, every half-year, of all dyestuffs and all pharmaceutical products to the extent of one quarter of the output for the preceding half-year. The prices shall be fixed by the Reparations Commission on the basis of the net pre-war export prices and the subsequent variations in net prices, or on the basis of the lowest price paid by any other buyer.

All these clauses, it will be seen, bind Germany only for a very short period and have no other object than to keep the Allies provided with materials in a measure which will not interfere with normal German industrial activity. Proper prices are assured the German manufacturers, since even for existing stocks, the cost of producing which was certainly far lower than present rates, allowance is made for "subsequent variations in net price."

Germany renounces, in her own name, and in the name of her nationals, in favor of the principal Allied and Associated Powers, all rights, titles or privileges whatever which she possesses in respect

of the cables or portions of cables, Emden–Vigo, Emden–Brest, Emden–Teneriffe, Emden–Azores, Azores–New York, Teneriffe–Monrovia, Monrovia–Lome, Lome–Duale, Monrovia–Pernambuco, Constantinople–Constanza, Yap–Guam, Yap–Menado (Celibate Islands). The treaty specifies for each of these cables the sections given up by Germany. The value of the cables, in so far as they belong to private interests, will be carried to the credit of Germany under the head of reparations.

V. Naval Clauses

The initial principle laid down in the naval clauses of the treaty is still the same—namely, reparation, as far as possible, of the damages caused. "Germany recognizes the right of the Allied and Associated Powers to the replacement, ton for ton (deadweight) and class for class, of all the ships, freight boats and fishing boats lost or damaged by act of war." Nevertheless, although the ships now in the possession of Germany represent a tonnage far inferior to that lost by the Allied and Associated Powers through Germany's acts of aggression, the right proclaimed above will be exercised only to the following extent: "The German Government yields to the Allied and Associated Governments the possession of all merchant ships, of 1600 deadweight tons and more, belonging to those under its jurisdiction, half in tonnage of vessels whose deadweight tonnage is between 1000 and 1600 tons and a quarter in tonnage of steam trawlers, and a quarter in

tonnage of other fishing boats." These vessels and boats comprise all those which fly or have the right to fly the German flag, belonging to a German subject, to a German firm or company or to a firm or company of another country than the Allied and Associated Powers and under the control and administration of German subjects, or actually under construction in Germany or in other countries than the Allied and Associated Countries for the account of Germans.

The German Government shall deliver, for every vessel, to the Reparations Commission, a bill of sale or other deed of ownership establishing the transfer to the Commission of the full possession of the ship, free from all preferences, mortgages or other liens whatsoever, and shall take every step to assure the placing of these vessels at the disposal of the Commission.

Germany has undertaken to restore to the Allied and Associated Powers all other vessels and barges for inland navigation which, since August 1st, 1914, came into the possession of its subjects in any manner whatever. So as to compensate the losses of inland tonnage suffered during the war by the Allied and Associated Powers, which are not covered by the foregoing clauses, Germany shall cede a part of her inland tonnage, to the extent of the total of these losses, but not more than one fifth of the total of such inland tonnage as it existed on November 11th, 1918.

Furthermore, Germany undertakes to construct for the Allies, within five years, the ships which shall be demanded of her, to the extent of 200,000

tons a year, the value of these ships to be deducted from the amount of reparations due by Germany.

The tonnage which is thus to be restored to us represents only a small proportion of that which was torpedoed by Germany, and only a very modest fraction of that which would be necessary to us in order that we should regain the place we formerly held in respect of merchant ships.

VI. Financial Clauses

Subject to the derogations which might be granted by the Reparations Commission a first preference is established upon all property and resources of the German Empire and States for the settlement of reparations and other charges arising out of the treaty. Nevertheless, an embargo on the exportation of gold or disposition of gold is specified only up to May 1st, 1921.

The cost of maintaining the Allied and Associated Armies in the occupied territories is to be borne by Germany from the date of the armistice. That is a clause which is customary in similar cases. The repayment of costs corresponding to purchases or requisitions made by the Allied and Associated Governments shall be made in marks at the rate of exchange; other costs to be paid in gold marks.

There shall be carried to the credit of the German Government, as a deduction from the sums which it owes, the value of material delivered, which the Reparations Commission shall deem to be, by reason

of its non-military character, properly creditable to the German Government.

The powers to which German territory shall be ceded shall assume part of the debt to be paid by the German Empire, as it was constituted on August 1st, 1914, according to the ratio between the revenue of the territory ceded and that of the total revenue of the Empire. That basis would appear to be the proper gauge of the capacity for revenue-yield of the various territories ceded. These same powers assume a proportional share, calculated in the same manner, of the debt of the particular German state to which the ceded territory belonged. Alsace-Lorraine is naturally exempted from this stipulation. When Germany took this territory from France in 1871 it assumed no share of the French debt. With regard to Poland, the fraction of the debt which the Reparations Commission shall deem to have been incurred through the steps taken by the German and Prussian Governments for the German "colonization" of Poland will not be chargeable to Poland. It is needless to dwell upon the fairness of this stipulation, for it would have been a strange thing to impose on a nation a burden of expenses incurred in the hope of annihilating that nation.

The powers to whom German territory is ceded will acquire all property and goods, in these territories, belonging to the German Empire or States. The value of these acquisitions will be paid by the power receiving the ceded territory to the Reparations Commission to be carried to the credit of the German Government, to be deducted from the sums

due by it for reparations. Nothing could be more equitable. The German States could not continue to hold property in the territories which they were losing. They receive the price of what was given up. Nevertheless, considering the manner in which Alsace-Lorraine was taken from France, that territory will be exempted from all payment to Germany for the value of the goods, in Alsace-Lorraine, belonging to the German Empire or States. Belgium also will have nothing to pay on property situated on territory ceded to her and belonging to the German Empire or States.

Germany renounces all representation or participation given to her by treaties, conventions or agreements of any kind, whether for herself or her subjects, in the administration or control of state commissions, agencies or banks and in all other international controlling or administrative organizations, whether financial or economic, whose activities are in any of the Allied and Associated Countries, in Austria, Hungary, Bulgaria, or Turkey, or in any dependencies of the above-named states, or in the former Russian Empire.

The Reparations Commission shall within a year's time be empowered to demand that Germany acquire all German rights or interests in any public utility or other enterprise in Russia, China, Austria, Hungary, Bulgaria, Turkey or any territory which, having belonged to Germany or her allies, is to be ceded or administered by a mandatory. These rights or interests shall be transferred to the Reparations Commission. Germany shall indemnify these

private German interests thus dispossessed. The Reparations Commission shall credit Germany with an amount equivalent to the value of the rights thus transferred. Germany shall transfer to the Allied and Associated Powers all her Austrian, Hungarian, Bulgarian and Turkish credits, and particularly those which arose out of the engagements entered into by Germany with these powers during the war.

Is it necessary to emphasize the common motive of these various financial clauses which we have just cited? Their underlying principle is that of giving Germany the means to begin meeting her debts to the Allies, or, in other words, to make reparation. The payments in kind which she is called upon to make are all to be carried to the credit of an account which is opened in the name of Germany and is to be closed on the day when Germany, through the numerous methods indicated, shall have placed in the treasuries of the Allies the sum total of her obligations representing only reparation of the damages she has caused or restoration of what she has taken. In this latter category are included the obligations assumed by Germany to transfer, to authorities who shall be indicated, the amount in gold which had to be deposited in the Reichsbank in the name of the administrative council of the Turkish public debt, as security for the first issue of paper money by the Turkish Government. The same applies to the obligation assumed by Germany to make twelve annual payments in gold as called for on the face of the German Treasury bonds deposited in the name of the admin-

istrative council of the Turkish debt as security for the second and subsequent issues of Turkish paper money. In the same class likewise must be considered Germany's engagement to restore: 1. The gold deposited in the Reichsbank as security for the advance, sanctioned on May 5th, 1915, by the administrative council of the Turkish debt, to the Ottoman Government; 2. the gold which had been transferred to Germany on the occasion of her loans to the Austro-Hungarian Government; 3. the gold and all other values, in cash or negotiable securities, of which Germany gained possession by the treaties of Bucharest and Brest-Litovsk.

It is a matter of record that the German authorities had succeeded, through various pretexts, in concentrating in Berlin nearly all the gold which Germany's allies possessed. To demand the restoration of a deposit has never been considered an act either of violence or injustice toward those having received such a deposit.

VII. Economic Clauses

Part X of the Treaty of Versailles contains the economic clauses. They relate to customs, navigation, unfair competition and the treatment of nationals of the Allied and Associated Powers.

Germany undertakes not to tax merchandise, raw or manufactured products, of any of the Allied or Associated Countries imported into German territory with other or higher duties or charges than similar merchandise, raw or manufactured products,

of any other country. Germany shall not maintain or impose any embargo or restriction upon the importation of merchandise or material of any of the Allied or Associated Countries which are not equally applicable to similar importations from other countries. Germany undertakes to make no discrimination against the commerce of the Allied or Associated Countries by indirect means, such as those arising from customs regulations or methods of procedure of checking or examination or from the terms of duty payments or methods of classification or interpretation of tariffs or, further, by the use of monopolies. Equivalent undertakings are given by Germany with regard to merchandise and products of exportation from her territory.

Every favor, immunity or privilege in respect of importation, exportation or transportation of merchandise which shall be granted by Germany to any country shall be simultaneously and unconditionally extended, automatically and without compensation, to all the Allied and Associated Countries.

For a period of five years all raw and manufactured products of the territories of Alsace and Lorraine, restored to France, shall be allowed free customs entry into German territory, but the respective quantities of each product shall not exceed the average quantities sent from those territories into Germany during the years 1911 to 1913. For five years also Germany shall allow free export and re-importation of threads, cloths and other textile materials or products from Germany into the territories of Alsace and Lorraine to undergo proc-

esses there, such as bleaching, dyeing, printing, mercerizing, gauzing, retwisting or finishing. For three years, in the same manner, products from Polish territory which before the war was incorporated in Germany shall be received free of duty by Germany to the extent of the mean annual quantities thus shipped between 1911 and 1913. The principal Allied and Associated Powers reserve the right to impose upon Germany the obligation of receiving free of duty products of the Grand Duchy of Luxembourg.

All these provisions explain themselves. It is evident that it was impossible to close the outlets which certain industries had for a long period been obliged to use. It is astonishing, rather, that such a brief period should have been fixed for the process of establishing the necessary industrial equilibrium in other directions. These provisions have no other object than to save the industries of Alsace and Poland from ruin.

During the six months following the date of the treaty's going into effect the duties imposed by Germany upon importations from any of the Allied or Associated Countries shall not be higher than those applying to the goods imported from the most favored countries at the date of July 31st, 1914. This provision shall continue to be in force for the thirty subsequent months, but only in respect of certain determined products. Finally, the Allied and Associated Powers reserve the right to apply a special customs tariff to the German territory occupied by their armies if they should deem such

steps necessary to safeguard the economic interests of these territories.

Nothing in these various provisions justifies the accusation that the victors wished to prevent the vanquished from existing. The majority of the provisions are nothing more than the development of the most favored nation clause which was inserted in the Treaty of Frankfort of 1871. We have only profited by the experience of nearly half a century, during which time we saw Germany changing the text by surreptitiously introducing subtle distinctions and carefully devised regulations. We have attempted, by means of suitable stipulations, to guard against the repetition of such frauds.

Germany binds herself to take all legislative and administrative measures to guarantee raw or manufactured products of the Allied and Associated Powers against any form of unfair competition in commercial transactions. She obligates herself to restrict and prohibit the importation and exportation, as well as the manufacture, distribution and sale of all products bearing, either on the articles themselves or the packing, any brands, names, inscriptions or marks whatsoever, involving false indications as to their origin, species, nature or specific qualities. *Upon condition that equivalent treatment be granted to her* on this point, Germany undertakes to conform to the laws and regulations in force in any of the Allied or Associated Countries which establish the right to local option with regard to wines and spirits. The importation, exportation, manufacture, distribution and sale of

products covered by such local option, contrary to the laws above mentioned, shall be forbidden by Germany.

Can Germany complain of such provisions which are confined to defending the legitimate rights of manufacturers and producers? Can she make any objection whatever when equivalent treatment is accorded to her?

The treaty is no less equitable in so far as it concerns nationals of the Allied and Associated Powers. All that it demands of Germany is that she shall not impose upon them, in relation to the exercise of trades, professions, commerce and industry, any exclusion which would not apply equally to all foreigners; that she shall subject them to no regulation which would violate this equality and that she shall impose on them no higher taxes than she imposes on her own nationals.

The settlement of debts and credits between nationals of the contracting powers and those of an adverse power must be made through the intermediary of offices of verification and compensation which shall be established by each of the contracting parties. There shall be settled in the same manner the payment of interest which accrued before and during the war, amounts of principal repayable before and during the war, due to the nationals of one of the contracting powers, representing values issued by an adverse power, provided that the payment of that interest or that capital to the nationals of that power or to neutrals shall not have been suspended during the war. Each of the contracting

parties forbids any communication between the interested parties relative to the settlement of the said debts otherwise than through the intermediary of the offices of verification and compensation. Each contracting party shall be responsible for the payment of the said debts of its nationals except those of the inhabitants of the invaded regions. The high contracting parties shall take all steps to prosecute and punish collusion between enemy creditors and debtors. The offices shall communicate all signs and information which come to their notice and may aid in the discovery of such collusion. When a debt is recognized the debit office shall immediately credit the credit office with its amount. The balance of the transactions between the offices takes place every month and a settlement is made by the debtor state. However, the balances due by the Allied and Associated Powers shall be retained until integral payment of the sums due to them by reason of the war shall have been made. Without entering into further details of the articles which minutely regulate the procedure of the compensation offices, we have said enough to show that Germany is treated in this matter on an equal footing and that her creditor or debtor nationals will see their accounts settled just as the French or other Allies.

The special war measures adopted by Germany in respect of the goods, rights or interests of nationals of the Allied and Associated Powers shall be revoked. These powers have the right to retain and liquidate all goods, rights and interests of German

nationals. The latter shall be indemnified therefor by their governments.

Contracts concluded between enemies shall be considered as null and void, except in the case of debts or other obligations arising out of the fulfillment of any part of such contracts or any payment made in accordance with them. If, however, the Allied and Associated Powers shall demand the maintenance of any contracts in the general interest, such contracts shall be carried out. Upon the territory of the high contracting parties, in relations between enemies all periods of statutes of limitations, laches or foreclosure shall be suspended for the duration of the war and shall only be put into effect again three months after the treaty shall have become operative. When a contract between enemies shall have been broken the party injured shall have the power to appeal to a mixed tribunal of arbitration, to obtain redress. This tribunal shall be composed of any one of the Allied or Associated Powers on one hand and Germany on the other. Each tribunal shall be composed of three members. Each of the interested governments shall appoint one member and the chairman shall be chosen after agreement between the two interested governments, or, in case such an agreement shall not be arrived at, by the League of Nations Here again is absolute equality between Germany and ourselves.

Industrial, literary or artistic rights shall be reestablished or restored in favor of those who benefited therefrom at the time of the outbreak of hostilities. Each of the Allied or Associated Powers reserves the

option of bringing to bear upon such industrial. literary or artistic rights which may have been acquired by German nationals such restrictions or conditions as shall be deemed necessary to safeguard the national defense or the public weal, or of assuring equitable treatment by Germany of industrial, literary or artistic rights possessed within German territory by nationals of the Allied or Associated Powers, or to guarantee the complete fulfillment of all obligations contracted by Germany by virtue of the treaty. In such cases reasonable indemnities or returns will be granted and these will be allocated in the same manner as all other sums due to German nationals.

No action may be brought by German nationals or by nationals of the Allied or Associated Powers by reason of acts which may have arisen on the territory of the other party between the declaration of war and the time when the treaty becomes operative, and which may have been considered to have infringed industrial, literary or artistic rights. Here once more we find equality between the victors and the vanquished.

VIII. Transportation

So far as transportation is concerned, Germany undertakes to grant freedom of transit through her territories on the route most convenient for international transit, either by rail, navigable waterway or canal, to persons, goods, vessels, carriages, wagons and mails coming from or going to the

territories of any of the Allied and Associated Powers. Such persons, goods, etc., shall not be subjected to any transit duty or to any undue delays or restrictions, and shall be entitled in Germany to national treatment as regards charges, facilities and all other matters. Goods in transit shall be exempt from all customs or other similar duties. All charges imposed on transport in transit shall be reasonable, having regard to the conditions of the traffic. No charge, facility or restriction shall depend directly or indirectly on the ownership or on the nationality of the ship or other means of transport on which any part of the through journey has been or is to be accomplished. Germany undertakes particularly to make no discrimination or preference, direct or indirect, in the duties, charges and prohibitions relating to importations into or exportations from her territories.

At this point it is interesting to recall an article of the Treaty of Versailles which has not been much discussed in German or Germanophile polemics, but which bears more than any other the impress of that spirit of extreme moderation with which the Allies have at all times been inspired. This is Article 378, which declares: "The stipulations in Articles 321 to 330, 332, 365 to 369 shall be subject to revision by the Council of the League of Nations at any time after five years from the coming into force of the present treaty. Failing such revision, no Allied or Associated Power can claim after the expiration of the above period of five years the benefit of any of the stipulations in the articles enumerated above

on behalf of any portion of its territories *in which reciprocity is not accorded* in respect of such stipulations. The period of five years during which reciprocity cannot be demanded may be prolonged by the Council of the League of Nations."

The articles referred to include conditions governing ports, waterways and railroads which we have summarized. They assure free distribution of merchandise, freedom of navigation and railroad freight. Now what is the significance of Article 378? It is, for instance, that Algerian products will no longer, after 1925, enjoy equality of transportation treatment in Germany unless German merchandise enjoys similar treatment on Algerian railroads. And the period of non-reciprocity can only be extended by the Council of the League of Nations. Moreover, the deliberations of this council, according to Article 5 of the Treaty of Versailles, shall be reached unanimously. The representative of a single State therefore will have the power to refuse us prerogatives which the other powers will have granted to be necessary. Such are the consequences of these conditions which evidently constitute a distinct favor to the vanquished nations.

IX. General Considerations

We must again refer to the memorable letter of June 16th, 1919, addressed to the President of the German delegation, in which Mr. Clemenceau, President of the Supreme Council, summarized in a most striking manner the history of the war, and

While pointing out that the Treaty of Versailles falls far short of giving satisfaction in every respect, we recognize that, in view of the variety and conflict of interests, it constitutes an acceptable solution of the majority of problems which it was intended to solve. From an economic point of view, it is the expression of a careful decision not to use undue haste in reaching a solution of the problems involved, and to temper the legitimate reparation demands to the capacity of the debtor. It is not the debtor who can complain of the conditions which have been determined upon, but, on the contrary, certain creditors whose own distress gives them a good right to be impatient. To justify the state of mind of these creditors, we shall only have to submit to the reader the picture of ruined Ypres upon the territory which was invaded, occupied and then destroyed by the Germans. We must also set forth the financial situation of the Allies, which is not only a result of the war, but has been terribly aggravated by the manner in which that war was waged. Half of the charges with which the French taxpayer is now burdened arise from the systematic destruction of houses, factories, mines and trees, which was carried out by the German armies in contravention of the laws of warfare.

CHAPTER III

GERMANY'S CAPACITY TO PAY

I. Germany's Wealth Before the War

THE Germans filled the world with their lamentations concerning the Treaty of Versailles, which they pretended imposed upon them a task beyond their strength. If, however, we look back a few years and if we recall the years preceding the war, we shall find ourselves faced with an attitude altogether different, and we shall observe quite another estimate of their financial power. At that time the statesmen, the bankers, the economists beyond the Rhine vied with each other in boasting of their country's wealth, emphasizing with pride its marvelous development. They pointed to the Rhenish and Silesian mills which were rivaling England in the markets of the world and allowed that the United States only was their superior. The Berlin banks stepped from success to success, absorbing the old provincial firms, placing their enormous means at the service of industry and commerce, spreading outward in both hemispheres, founding branches and associations in all the principal centers of the world; the great shipping companies of Hamburg and Bremen

vied with the British ship-owners, organizing their lines upon the seven seas, seeking passenger and freight traffic even in French and English ports.

The statisticians gloated over their estimates of Germany's wealth in hundred-billion figures. The Imperial Bank, in 1900, at the time of the twenty-fifth anniversary of its foundation, published a volume in which it arrayed smugly the figures which bore witness to its progress, the services which it rendered to the country particularly in the achievement of monetary reform, organization of money-transfer systems all over Germany, the regulating of discount rates. The rates of exchange with foreign countries, particularly with France, England and North America, were maintained approximately at par; gold circulated freely in Germany; the Prussians and other German subjects traveled extensively, making themselves very obvious with their somewhat noisy luxury in watering places and other resorts.

In a study published in 1913 under the significant title, "The Excellent Situation of the German People" (*Deutschlands Volks Wohlstand*), Dr. Karl Helferich, former director of the Deutsche Bank, who at the beginning of the war was Minister of the Interior, then Minister of Finance in 1917 and Vice-Chancellor of the Empire, vaunted in high-sounding terms the economic power of his country.

Studying the elements of this prosperity, the author first of all recalled the one which is at the base of all, namely: population. The excess of births over deaths in Germany was thirteen per thousand in 1913; the population, which in 1870

scarcely exceeded that of France, had increased by two-thirds and on the eve of the war surpassed 66 millions. Industrial progress had continued with extraordinary intensity; from 1882 to 1907 the power generated by steam engines in Germany had quadrupled, advancing from 2 million to almost 8 million horse power. But that is not the only source of energy which modern factories employ. The factories operated by electricity and the carrying of power from long distances continued to multiply in Germany in the same manner as gas motors and gasoline motors for automobiles and æroplanes. The construction of machines was a flourishing industry. Herr Helferich complacently gave a list of all those machines which were manufactured in Germany itself; machines for mining, for metallurgical, textile and paper industries, agricultural implements and machines employed in industries depending on agriculture such as distilleries, breweries and sugar refineries. He showed the part which was played by his country in the theory and practice of fertilizing. He recalled the wealth which existed in a deposit of potash of which 11 million tons mined in 1912 represented 230 million francs in value.

Germany, with her professional schools, her well-disciplined workmen, gave the impression of an important productive force. She counted in 1907 nearly 3½ million factories, 3 million of which employed from 1 to 5 persons, 267,000 of average importance (from 6 to 50 persons) and 32,000 employing 51 hands or more. Among the latter,

500 had a personnel of more than 1,000 men, and comprised altogether nearly a million employees. This development of large factories was based on the development of available capital which at the same time favored the establishment of an ever-increasing number of companies. In 1886 there existed in Germany only 2,143 joint stock companies, with an aggregate capital of 6 billion francs. In 1912 4,712 were listed with a capital of 19 billion francs. Funds on deposit in the banks at the former date exceeded 12 billion francs; 4 billions deposited with industrial associations; 22 billions in savings banks. Within a quarter of a century the total of these deposits had quintupled.

With regard to agriculture, production had made enormous strides; from 13 quintals of wheat to the hectare in 1885, it had increased to 20 quintals in 1912. With regard to the cultivation of rye, although the land covered by this crop had only increased by 6% the production advanced by 88%. In gross output Germany led all nations in the cultivation of potatoes (50 million tons). She came third in the output of cereals (15 million tons). Her production of beet root reached 15 million tons, which yielded 2½ million tons of sugar. The number of animals, with the exception of sheep, had considerably increased. The number of cattle and horses had grown larger by one-third; the number of hogs had been more than doubled. From 1887 to 1911 the production of soft coal had tripled, increasing from 76 million to 234 million tons. In this respect Germany came third after the United States, which,

in 1911, produced 450 million tons, and Great Britain, whose output was 276 million tons. The number of blast furnaces in Germany had increased from 212 to 313. From these furnaces 16 million tons of pig iron was produced, a quantity equivalent to one-quarter of the world's output, less than the production of the United States, but 50% greater than that of England. As for steel, the situation was still more brilliant. Germany attained an output equal to half that of the United States and produced much more than double the output of the United Kingdom—14 million tons against 6 million tons produced in Great Britain.

Herr Helferich proudly enumerated the millions of workmen employed in the various branches of industry and showed how rapidly this force had multiplied during the last quarter of a century. In the forefront he called attention to the building industries which employed more than a million and a half men who worked without periods of idleness in the construction of factories and dwellings. He pointed to the progress of postal, telegraphic and telephone communications, which had doubled, tripled and quadrupled, respectively. He showed that the railroads had increased their mileage from 26,000 to 39,000 miles. The merchant fleet exceeded 4 millions in aggregate tonnage, tripling in size during the period mentioned. Germany's foreign trade had reached 25 billion francs in 1912, of which 14 billions were imports and 11 billions exports.

This rosy picture was followed by a study of the income of the German people estimated at 57 billion

francs. This factor was examined with particular care in the principal German State, the one in which financial organization was most perfect. In Prussia the number of inhabitants having an income inferior to 1,125 francs—the point from which the income tax starts—was 16 millions, including their families, whilst the number of income-tax payers exceeded 7½ millions. If the families of the latter class were included it would be found that the number of persons subject to income tax was 24 millions against 16 millions in the category not subject to tax. Herr Helferich pointed out that in the class of Prussians having an income between 1,135 and 7,500 francs the number of tax payers had increased by 150%; that in the category having an income ranging between 7,501 francs and 125,000 francs the number had doubled; that in the class having an income larger than 125,000 francs the number of tax payers had been increased by 50%. Similarly, salaries had doubled.

Passing on to the consideration of capital, the author sought to determine the wealth of the German people. The complementary tax imposed in Prussia, which affects capital, allows an estimate of the wealth of this Kingdom. In 1911 it was estimated at 200 billion francs, which would show an approximate capital of 325 billion francs for the Empire. Numerous additions to this figure should be made, however, and these additions would bring it up to the figure specified by a German writer whose work we shall review later and who arrived at a very much higher total.

Another sign of prosperity which Herr Helferich emphasized was the amount of issues of stocks and bonds, including state securities, which from 1886 to 1913 reached a total of 68 billion francs or a yearly average close to 4 billions at the end of the period considered. He pointed out, furthermore, with good reason, that this total was greatly inferior to the annual increase in the nation's wealth. It is only a part of the savings which is invested in new securities or which goes to swell the deposits in banks and savings banks. Many enterprises other than joint stock companies were increasing their capital and resources; many private enterprises were developing their equipment or adding to their plants. The rate of increase in the general wealth, which was 4% in 1893, had reached more than 10% in 1913.

During the fifteen-year period from 1897 to 1912, at a time when the population had increased by 28%, the capital possessed by it had undergone an augmentation of 50%. If, on the other hand, the use made by the Germans of their total income of 57 billion francs is examined it will be found that 9 billions were absorbed by the budgets of the Empire and the different states, 34 billions being devoted to personal expenditures of the inhabitants, while 14 billions represented the annual increment of the capital previously held.

Such were the figures proclaimed on the eve of the war by one of the leading financiers of Germany, who, in presenting them to his readers, exclaimed: "This is indeed something to rejoice and inspire our

hearts! Germany has raised herself to a level never before reached; she has shown herself to be the equal of the most powerful among her competitors."

Coincident with Herr Helferich's boasting about the economic aggrandizement of the Empire, many of his fellow-countrymen were devoting themselves to a minute study of the elements which made up this expansion. One of the latest estimates of Germany's fortune made before the war was by Herr Steinmann-Bucher, who had drawn up statistics divided into six sections, as follows:

1. Movable property and real estate excluding land values: This total was established in accordance with the amounts for which such property were insured against fire. The total of policies as early as 1905 reached more than 2 billion francs; the author of the work justly remarked that if some of the policies exceeded the actual value of the property insured the contrary was true in many cases. Moreover, approximately one-quarter of the real estate is not insured and several hundred mutual insurance companies were not included in the official statistics. This figure must therefore be increased to 225 billion francs at least.

2. The land value of cities and rural districts: In urban districts this value often exceeds that of the actual buildings period. On the other hand, the land which forms the immediate surroundings of the cities has a constant tendency to increase in value through the expansion of the building area. Indeed, since 1871 the number of large built-up areas has

increased rapidly in Germany. In 1905 for every 1,000 of the population 190 were dwellers in cities of more than 100,000 population, while in 1871 this figure was only 48; that is to say, four times less. Herr Steinmann-Bucher valued the land in cities of this class at 37 billion francs and that of towns of smaller population at 62 billion francs. He arrives at the same figure for the total value of rural territory, counting 1,200 francs per hectare, which does not seem to be excessive.

3. The German capital invested abroad and foreign funds owned by Germans: This class of wealth was estimated at 25 billion francs. Herr Steinmann-Bucher based his calculations of this figure upon the work of the Imperial Marine Bureau, and that of Herr Erich Neuhaus, who gave a figure of 27 billion francs for 1906. This amount was rapidly increased during the succeeding years.

4. Railroads owned by the various states making up the German Empire, particularly Prussia, state-owned mines, public buildings, ports, canals: 42 billion francs.

5. Ships, merchandise in transit on land or sea: 5 billion francs.

6. Bullion: 6 billion francs.

By adding up the amounts contained in these six sections a total of 445 billion francs is arrived at and this was the figure at which a German estimated the wealth of his country eighteen years ago. It should be noted that he took no account of annuities, public funds or mutual obligations of German subjects. Consequently, it may be said

that this estimate was moderate. If some elements of the country's assets, such as ships and foreign securities, have been reduced since 1912, the land, buildings and industrial equipment have undergone an increase in value similar to that which has taken place throughout the world.

Thus the wealth of Germany was equivalent to more than twice the wealth of France, namely: 225 billion francs, at the lowest estimate made in 1913. It was, moreover, 50% greater than the highest estimate of the wealth of France, namely: 300 billion francs. Is it too much to contend that our country has been vitally injured to a greater extent than Germany and have we the right to assert that Germany is in a position to put forth a greater effort than we are?

II. The Present Situation of Germany

It appears, moreover, that numerous signs bear witness to the resumption of economic life on the other side of the Rhine.

In reality one is impressed with the abundance and variety of advertising in the German newspapers, indicating business activity. In one place, directors for commercial or industrial concerns are sought; in another banks are demanding executives and arbitrageurs; jobbers are looking for help; merchants are advertising for salesmen; manufacturers in various parts of the country are making attractive offers to engineers; joint stock corporations are demanding claims agents, factories need experts;

elsewhere it is electricians that are being sought. So much for requirements in staff. So far as merchandise is concerned, every kind is being offered: motors, window glass, machines of all varieties, miles of cable and tubing, trucks, boilers, cigars, agricultural implements, buckets and household utensils. The *Frankfurter Zeitung*, which is one of the principal organs of southern Germany, contains many more advertisements than before the war. Is that a sign of stagnation or economic depression?

Numerous branches of German industry are flourishing. To realize this it is sufficient to take cognizance of the dividends paid by many companies and the rights offered to their shareholders in the form of reserve apportionments or the free distribution of shares. Let us consider the list recently published of a score of industrial groups, such as concrete construction, carriage building, lignite mining, woolen and cotton textiles, pencil factories, enamel ware, matches, hats, linen, rubber goods, steel products, etc. Moreover, during the single month of March, 1920, shares of the value of 163 million marks were distributed to stockholders.

The German metal industries, as we have seen, are already operating at nearly two-thirds of their capacity, whilst the French metal industries are only working to the extent of one-quarter. This comparison is eloquent of the respective situations of the two countries.

We are given the impression that the whole German people is organizing a sort of conspiracy to cover up the figures of the country's production so as

to gain the pity of foreign countries on account of a situation which is much less painful in reality than in descriptions which are being spread broadcast.

The population is already beginning to derive advantage from the drop in prices which has been heralded in France for several weeks, but which has not actually become effective with us with regard to any article of prime necessity. A telegram sent on May 27th, 1920, to the *Frankfurter Zeitung* announces that at Hamburg, as a result of large importations, real panic was felt by wholesale merchants. These merchants were doing their utmost to unload their goods at any price offered, in spite of the losses which this liquidation involved. Freight trains, in rapid succession, were arriving in Berlin with loads of foodstuffs. The townships were particularly affected by a decrease in prices of 30% to 40%, which depreciates in that proportion the stocks which the municipalities had accumulated. The warehouses are piled high with fats and margerines. Dried vegetables, wine and fish have fallen 50%. The retailers who during the rise in prices did not cease to buy are now out of the market. Their failure to buy is making the drop in prices more rapid. Such factors as these seem to disclose living conditions in Germany which are in strong contrast with the difficult situation in which other European peoples find themselves.

When we see in the newspapers that tobacco merchants are announcing cigarettes in full-page advertisements, when we read of embroidered goods being offered by tens of thousands and when we

see horse races resumed in Berlin and elsewhere, we have a right to wonder whether the complaints which are made in the press with regard to the terrible conditions in the country are altogether sincere. It seems, at least, that the Germans are certainly not any worse off than any of the other nations involved in the war and that their condition, if not altogether an easy one, is at least shared by every other nation and is rapidly improving.

III.

In order to obtain an idea of how Germany would have treated France as a defeated enemy it is not necessary to have recourse to a series of hypotheses. Even before the war an abundance of literature grew up in Germany around this subject, leaving little doubt as to the intentions of that nation in case of a victory which even then the aggressors took for granted. The books and pamphlets, the innumerable articles which appeared in newspapers and periodicals, all contained two basic ideas which were unanimously vindicated by the writers. In the first place it was advocated that the war should be waged with all possible brutality, that not only should armies and fleets be destroyed, but that the countries themselves should be ruined utterly and that the civil population should be terrorized, decimated and reduced to a state of slavery. The razing of houses and factories, the destruction of mines so as to obviate for a long period any possibility of competition by the inhabitants of those

regions which had been invaded and occupied by the German armies—all this was contemplated in the scheme of warfare. The second aim was a peace of conquest and domination which might assure the Germanic peoples of world hegemony. We show by a series of quotations the existence of this state of mind among the writers who had all absorbed the theories of Prussian militarism and who, asserting the semi-divine superiority of their race, proclaimed that there should be no hesitation between destroying the capital of a hostile country with its six million souls and allowing the loss of a single Pomeranian grenadier's life.

This total absence of altruism is the predominant characteristic of a mentality which is diametrically opposed to our own. We may open at random any of the German works dealing with peace conditions and find that there is hardly one which does not speak of annexations as a necessity. Whilst Frenchmen are always ready to consider the moral aspect of questions, the Germans profess an utter contempt for this point of view. The pamphlet of a certain Herr Scholtz contained the following: "If we had the means of destroying the whole city of London it would be more humane than to allow the blood of a single German to be shed on the battlefield, for radical measures are what brings peace most rapidly. To hesitate and wait, to use gentleness and consideration, would be unpardonable weakness. Brutal attack, unmitigated by any consideration whatever, is the means by which victory may be attained. Let the enemy say what he will of us. The only

thing we do not want is that on the day when peace shall be signed he may be able to pretend that the Germans have been weak-kneed."

On January 19th, 1916, Herr Martin declared before the Reichstag that the German people would not allow their government to return the territory which their armies then occupied. The general staff, having already realized nine-tenths of the programme of conquest, there only remained Calais, Verdun, Belfort. Riga and Salonika. There was nothing left for it to do but establish its forces firmly in the conquered positions and prepare the final incorporation in the empire itself of these provinces snatched from the enemy.

In the same year, 1916, Dr. Bruno Heinemann and Dr. Neumann-Frohnau published a pamphlet entitled, "Frontier Territories of Enemy Nations and Their Significance from the German Point of View." After reviewing the status of Belgium, northern and eastern France, western Russia and what they called the gateway of the Orient, these authors concluded without further ado that what is good to take is good to keep. "It is fitting," they wrote, "not only to retain the territory occupied by us prior to the signing of peace, but to annex it definitely, so as to consolidate our national economic situation by the addition of this territory which should be attached to the empire If we do not take advantage of this opportunity, our position in a future war would become very much less fortunate, for our requirements in foodstuffs and munitions would be greatly increased. The peace

terms must therefore be such as to assure the economic and political future of our country for an indefinite period." This language is not difficult to understand. A glance through the book leaves no doubt as to its significance. "Annexation of the western Russian provinces would be of great value in keeping Germany supplied with food. Thus it would be proper to push our frontiers back to Lake Peipus and the rivers Pripet and Dnieper. But even that would not be enough. It would be necessary also to occupy Serbia so as to assure an adequate outlet for the commerce of central Europe. Serbia is the gateway of Bulgaria, Turkey and Asia Minor. All these countries require colonization by Germany."

In the month of June, 1918, just when the Germans believed they were on the point of attaining their goal, Count von Roon, a relative of the former minister of war who played so important a part in the reign of William I, published in the *Goerlitz Gazette* the programme which the annexationist leagues were demanding should be integrally applied. This programme may be summarized as follows:

"Germany has sufficient strength, attained through victory, not merely to reach an agreement with her adversaries, but to dictate the following conditions: No truce; no armistice; no interruption of submarine warfare; refusal to listen to any proposal of the Entente powers so long as a single English soldier remains on Belgian or French soil, and so long as the Germans are not either within Paris or at its gates. Annexation of Belgium, while

granting it local administrative autonomy. Annexation of all the coast of Flanders as far as Calais. Annexation of the basins of Briey and Longwy, of Toul, Belfort, Verdun and the territory east of these cities. Restoration to Germany of all her colonies, including Kiao-Chou. So as to assure the freedom of the seas, England must yield to Germany all her naval bases as well as the coaling stations which Germany shall indicate. England shall restore Gibraltar to Spain. England shall surrender her fleet to Germany, return Egypt and the Suez Canal to the Porte, besides everything that belongs to Turkey.

"Greece shall be reinstated beneath the authority of King Constantine within its former limits such as they existed before the war began. Serbia and Montenegro shall be divided between Austria and Bulgaria.

"England, France and the United States of America shall be compelled to pay Germany all the costs of the war, amounting at least to 180 billion marks, or 225 billion francs, and they must promptly deliver all the raw materials which Germany shall require. France and Belgium must remain under the occupation of German troops, at the expense of these countries, until all the foregoing conditions have been fulfilled."

Is it necessary to emphasize the contrast which these conditions present as compared with the terms of the Treaty of Versailles? Germany, whose territory remained untouched, was asking, not reparation of damages actually suffered, but repay-

ment with usury of everything which she had spent in waging the war. It was not a restoration to the empire of faithful peoples that she was demanding; rather was she brutally contemplating the annexaion of territory to which her claims arose merely from alleged military necessity, without occupying herself in the least with the feelings of the inhabitants. "Everything will be all right," wrote Count von Roon. "Let us first of all carry out our programme."

Many other articles of the peace treaty were worked out on the other side of the Rhine during the war. The imagination of the Pan-Germans was given free rein in the direction of every term which they were preparing to impose upon us. As early as 1914 the famous Count von Bernstorff, ambassador at Washington, had begun to lay down certain conditions of the peace, such as the surrender to Germany of all the French colonies, of all the northeastern section of France, the suppression of all customs duties applied to the entry of German goods into France, while Germany should retain full liberty of imposing duties on French merchandise; the abandonment by France of her system of compulsory military service; the destruction of all French forts; the granting of special rights with regard to German patents in France; that France should renounce any alliance with Russia or England and that she should accept an alliance of twenty-five years with Germany.

But we have promised to confine ourselves within the scope of economics and not take up political questions. Enough has been said of the latter to

show how radically the terms of the Versailles treaty differ from what the Germans were proposing. They, indeed, would not have inserted articles entailing an examination by the victors of the paying capacity of their defeated enemies before exacting payments. Not only would they have failed to give a thought to anything of the sort, but they would have imposed Draconian terms, with the secret hope that such terms could not have been carried out and that the security given for their execution could be retained by themselves. Unquestionably they would not have failed to exact valuable and ample security.

The question of knowing how they would obtain payment was contemplated by the Germans with a clearness which is instructive as to the manner in which they would have attained their object. This is what Baron von Zedlitz-Neukirch, a member of the Prussian Diet, who voiced the ideas of the majority of the large proprietors, manufacturers, ship-builders and merchants, had to say on the subject:

"The sum of the indemnities for the war and our losses will reach an almost fabulous figure. Thus it will be impossible to exact full restitution of our expenses and our losses in negotiable securities. Since, on the other hand, nothing can induce us to give up our claims to such full and absolute restitution, it becomes necessary to obtain it in another form. For restitution in cash can be substituted certain economic advantages calculated to increase our national wealth. This will be realized by favorable commercial treaties, concessions of mines and

railways. Besides that we must take territorial acquisitions. The metallurgical deposits of French Lorraine and Russian Poland will serve to supplement our own mineral resources. Reaching a just and practical solution of these problems by such means is certainly a task which merits most earnest efforts."

It is easy to guess what Baron von Zedlitz-Neukirch means by a "just and practical solution," such as he considered worthy of the most earnest efforts. This solution consisted, so far as Germany was concerned, in exacting payment, not only for war damages, but for all the cost of the war. Once the sum was fixed, what could not have been paid in negotiable securities would have been covered by territorial annexations and a multitude of concessions.

Among the numerous publications which during the war revealed with naïve cynicism the German state of mind, is a pamphlet by Count Reventlow significantly entitled, "Do We Need the Flemish Coast?" In this work he piles up arguments to show that Germany could not live without the conquest of this territory. Nature, according to this author, had placed all strategic advantages on the side of England. Consequently the defenses of Germany on the Baltic must be buttressed by similar defenses on the North Sea, without which Germany could not control the ocean.

It was not only the coast that Reventlow deemed necessary to the security of the Fatherland, but the whole of Belgium, without which, he declared, it would be impossible to assure the economic revival

and independence of the German people and empire. His entire volume revolves around this theme, that German naval power cannot be fully developed without the coast of Belgium. Therefore, he concludes, no question can arise as to whether or not such annexation would be legitimate.

Whilst the spirited Reventlow was sending forth his diatribe which should fan among his compatriots the flame of ardor for what he called indispensable conquests, other Pan-Germans were compiling statistics to impress them with what would be the consequence of the peace unless it was drawn up according to the indications of the emperor and his generals. One of the most curious lucubrations of this kind appeared in 1918 under the title of *Deutschlands Lage beim Friede* ("The Situation of Germany at the Time of Peace"). This sharply criticizes the Pope's note of August 1, 1917, in which the Sovereign Pontiff urged the evacuation of Belgium and the occupied portions of France. The most interesting passage of this pamphlet is that in which it establishes the balance sheet of the public funds one year after the declaration of peace in each of various cases which the writer supposes. In case the Allies should be victorious, the author grants that Germany would have to pay their war expenses to the extent of 320 billion francs, and the damages caused in France, Belgium, England and Russia to an amount of 54 billion francs. That is the figure at which our enemies themselves expected to be taxed in case of defeat. They know as well as we do that the damages increased enormously after that time. Their own ad-

mission emphasizes the moderation of the Treaty of Versailles. There can be no sort of comparison between what the treaty now demands of them and what they would have exacted in case of German victory.

One of the books most characteristic of the German mentality appeared at Leipzig in 1918 under the signature of Kurd von Strautz, and entitled, "The Object of Our People's War" (*Unser Voelkiches Kriegsziel*). It begins with an admission of which we quote the first lines hereunder:

"Already in my schooldays the impression of the last Franco-Prussian War strongly influenced me. Thanks to the wonderful teaching of history which I received at the *Joachimstal gymnasium* in Berlin, I drew away from classical culture, which is too prone to neglect nationalism. From that time the dream of my life was to behold the outbreak of this war of retribution (*Vergeltungskampf*)—for such is the name by which the present war should be known—in which I have never ceased to believe, but which I was afraid to see indefinitely postponed under the influence of the deplorable pacific optimism (*Friedenseligkeit*) on the part of the government which had succeeded that of Bismarck. I strove with voice and pen for the realization of this war of vengeance (*Rachekrieg*) which was to reconstitute finally the frontiers of our people and our empire as they existed in 1552, which have been impaired at intervals both on the east and the west. Neither 1815 nor 1871 restored them to us. Bismarck began, but was not able to complete, the process of our recovery, and

after him commenced that decadence which the present war alone is capable of checking."

This war Herr von Strautz hailed with transports of joy. He considers, moreover, that Germany, in alliance with Holland, Belgium, and Switzerland, leaning on Austria, would be an adversary capable of crushing poor France, deprived earlier of Lorraine, French Flanders, Artois, Cambresis, and Franche-Comté.

We should like to know what Herr Kurd von Strautz thinks to-day and whether he is still rejoicing, with the same spirit of gayety, over Germany's aggressions of 1914.

The annexationist literature was not only abundantly enriched with publications signed by German authors, for these gentlemen recruited a Dutchman also to their cause. A certain Hans Clockener, who styles himself a retired lieutenant of the army of the Netherlands, wrote a pamphlet entitled, "Why and in what manner must Germany make annexations?" He declared in this work that the war had taught him that he belongs to a great race. He pitied Germany for having such bad frontiers, particularly in the neighborhood of Belfort, which, he declared, Bismarck had the "signal weakness of leaving to France in 1871." The war of 1870 created German unity; that of 1914, he held, should create Germanic unity, which would include the Scandinavian countries, the Netherlands, Austria, and Switzerland.

IV. The Treaties of Brest-Litovsk and Bucharest

Why indeed should one seek proofs of the German plans in the numerous works published by them

during the last several years? Is it not enough to recall the terms of the treaties of Brest-Litovsk and Bucharest dictated to Russia and Roumania? When the Roumanian delegates protested against the severity of the clauses which the victorious Germans passing through their country forced them to sign, the Germans replied, "You will appreciate the moderation of Germany when you know the conditions which the Central Empires are about to impose upon the western powers."

Nevertheless, the first of the treaties which we have just cited, that of Brest-Litovsk signed on March 7, 1918, took from Russia Poland with a population of 11 millions, Lithuania with 9 millions, Livonia and Esthonia with more than 2 million inhabitants. It detached from the mother country Ukraine, Finland, and Georgia, which Germany pretended to recognize as independent republics but over which she actually exercised a protectorate. In reality, these more or less disguised annexations placed immense areas under the dominion of Germany and a population exceeding 50 million souls.

The treaty of Bucharest of May 7, 1918, involved treachery on even a greater scale than that of Brest-Litovsk. Germany made believe that she was demanding no territory for herself, but she began by allocating to Bulgaria an area of 4,000 square kilometers and to Austria the southern section of the Carpathians in such a way as to make the boundaries of Roumania impossible to protect. She took away Dobrudgja, which was thenceforth placed under a system of joint control, in which Germany

had the upper hand. Thus Germany gained a footing in the port of Constanza and assured for herself an outlet to the Black Sea. Hungary on its side became possessed of the oil and coal deposits of the Bacau region. Further to the south, through frontier rearrangements, the districts of Buzeu and Prahova with their important manufacturing centers were absorbed. In the Turnu-Severin region, Germany took possession of the copper deposits of Baia de Amara. Finally, Article 12 of the Treaty of Bucharest stipulated that no obligation of any kind would be involved either on the part of the territories taken away nor on that of the states which acquired them on account of the fact that these territories had belonged to Roumania. The entire Roumanian debt remained as a charge upon Roumania, which had been shorn of a considerable portion of its population and wealth.

Germany gained control of all the oil deposits of the country through the intermediary of three organizations, the Oil Industries Corporation, which was to absorb rival enterprises, the Commercial Monopoly Corporation, which was to dispose of the total production, and the Operating Corporation of the oil-bearing lands, whose function it was to take possession of the very sources of the industry. This last corporation, of German nationality, obtained for thirty years the exclusive right to exploit land owned by the Roumanian Government with the exception of that part which had been given up before August 1st, 1916, in addition to the right of prospecting, extracting and refining mineral oils, gas, asphalt and

other bituminous minerals. The land excluded from this clause was to revert unconditionally to the operating corporation at the expiration of the concessions then existing. The renewal of all these privileges was provided for over two periods of equal duration in such a way that for 90 years the Roumanian state was deprived of the free use of the richest portion of its territory. The Commercial Corporation, in return for an insignificant tax of 3 leis 40 per ton to be paid to the Roumanian Government, was in a position to supply Germany from that time forward, Germany being represented on the Executive Board by agents of the big German metallurgical, oil and navigation industries.

All precautions were taken with regard to the railroads. In Ukraine the Central Empires had reserved for themselves the control of the various systems under pretext of protecting the transportation of merchandise imported by them. German troops occupied the railroad lines as far as the eastern frontiers. From Russia, Germany obtained free access to Persia and Afghanistan. In Roumania, a representative of the German Government was to take up residence and actually control the administration. The Roumanian telegraph system was placed under German control. Until the year 1950 this system was to maintain a station on the Roumanian coasts for the landing of submarine cables.

These various clauses entailed levies far exceeding several hundred million francs or even several billion francs in the form of indemnities. The Munich *Journal*, in its issue of May 18th, 1918, rec-

ognized that "these indirect war indemnities gave very substantial benefits to Germany, and that Germany might be satisfied if she succeeded in concluding peace with her other enemies on similar conditions." We have no difficulty in believing this. So far as Russia was concerned, no pains were taken even to keep up an appearance of leniency. A total indemnity and fine of 6 billion marks was imposed upon this country, one-quarter of which was to be paid with 245,564 kilograms of fine gold and 545 million roubles in bank notes of the former regime; one-sixth was to be paid in merchandise; five-twelfths by handing over securities; the last sixth would remain as a charge upon Ukraine and Finland.

We might fill many pages with the enumeration of political, economic, and financial advantages which Germany had thus obtained. In connection with the gold and other value deposited in the German Imperial Bank on account of the Roumanian National Bank, Germany declared that a part of this sum, having disappeared through administrat ve acts of the German authorities, could not be restored and that the balance would remain in Berlin as security for the payment of Roumanian State bonds belonging to German subjects. Commercial treaties very favorable to the Central Empires were again put in force. Unimpeded transportation of German merchandise toward Asia through Roumania was assured. In a word, Germany had not hesitated to employ every means to guarantee her sway in eastern Europe. By making two German lakes of the Baltic and the Black Sea she insured the control of the Danube throughout

its navigable length. For the Hamburg-Bagdad Railroad, the completion of which was made impossible from that time by the military successes of the Entente in Palestine and Mesopotamia, she substituted the Hamburg-Theren Railroad through Roumania, Ukraine and Turkey.

Although the two treaties of Brest-Litovsk and Bucharest were annulled by the Treaty of Versailles, it serves a useful pupose to recall the causes of these treaties to our readers and to show them how Germany treats the vanquished. It is impossible to imagine any more complete control over their resources or any series of stipulations better calculated to make these countries dependent from an economic standpoint. What would the Germans have said if we had established French corporations to exploit for our own benefit and for a hundred years the potassium salt deposits of Stassfurt or the coal mines of the Ruhr region and Silesia? What would they have thought if we had taken control of their railroads and installed our engineers in their ports—if, in short, we had, through the Treaty of Versailles, put into effect the extraordinarily subtle and lasting system which was involved in the German treaties of March and May, 1918?

CHAPTER IV

CONCLUSION

We have followed the course taken by other economic writers on the subject of the Treaty of Versailles, without overlooking any of the important arguments adduced in support of the criticisms of that document, and we hope we have given a convincing answer on every point. Let us now turn to our fellow-countrymen and our Allies, and say to them: "This is the Treaty. Give careful study to its various clauses once more and absorb them. It is the work of human beings constructed methodically. If it is carried out, it can serve as a guide to humanity for a long period of years. To destroy it would involve opening the way to dangerous unknown regions and, above all, would give Germany a pretext for evading the fulfillment of her engagements. What statesman would dare to shoulder this great responsibility?"

The real method of insuring the peace which our unhappy world has so fervently prayed for is to maintain perfect unity among those to whom the reparations are due and to show an attitude of firmness to those who owe these reparations. What will 63 million Germans be able to say to the 200 millions of the Allied peoples if the latter, without hatred but without weakness, demand what belongs to them?

It is in the interest of the Germans themselves that they should not have any doubt as to the unanimous will of those who signed the treaty. The certainty which they will feel in this respect will discourage their attempts at evasion which the hope of disunion among the associated powers would unquestionably encourage. They will then abandon plans of useless armament because they will be convinced of their inferiority in the face of a coalition determined to maintain peace. They will direct their efforts towards the establishment of a budget in which allowance will be made for expenses necessary to the development of the country and at the same time for the payments due to the Allies.

Which among the generals and statesmen of Prussia would have occupied themselves with finding out the Allies' capacity to pay at a time when they were dictating a Treaty of Peace and fixing the war indemnity?

Not only would the Germans have failed to make any attempt at remaining within this figure, but they would have taken steps to obtain substantial guarantees from which they would have derived considerable benefit in case we should not have been able to meet their terms. We find nothing similar in the Treaty of Versailles, which, on the contrary, enjoins upon the Allies a study of the financial situation of Germany so as to find out whether she is in a position to meet the interest and amortization fund before exacting the payment of the 40 billion marks in gold bonds which is to make up the payment of the first hundred billion marks due by Germany.

CONCLUSION

Here is the hub of the problem. Those who drew up the treaty wished not only to do justice and to show moderation, but also have made the fulfillment —not of the entire obligation involved, but of its first part alone—secondary to the consideration of the capacity of Germany to pay. Their mistake lay in the fact that they believed the determination of that capacity to be an easy thing when it is actually almost impossible. One of the most terribly complicated problems which a picked assemblage of diplomats and statesmen were confronted with was that which consists of establishing the amount which a country is in a position to pay to its creditors. In addition to the fact that the primary statistics which would permit of establishing a definite basis do not exist, this effort would be complicated further, even if it could be achieved at a fixed date, by factors which are fundamentally variable. The wealth of a nation changes from year to year. The differences in crops and foreign trade alone represent billions within the period of a few months.

On the other hand, one may ask whether it is capital or income which should be considered. One is indeed a function of the other; but if it is an almost superhuman task to estimate the wealth of a nation, that of figuring the annual income of its subjects is an impossibility, so variable are the divers elements which make up this figure. Their mutability in many cases is such that they cannot be controlled by any system of official registration. Moreover, the magnitude of the sums to be paid as reparation to the Allies is such that the only conceivable method of payment,

at least so far as the majority of the debt is concerned, is in the form of annuities.

Germany must liquidate her debt by means of annual payments comprising the interest on the debt and a fraction thereof by way of amortization. It is from the income of the nation that these annuities must be levied; they constitute a charge upon her budget. Thus we arrive at the question of determining what this budget must be. According as the military expenditures are which form so important a part of every nation's budget, greater or smaller sums, more or less considerable, will be available for other payments. It is evident that a nation which has obligations to fulfill to another has not the right to regulate its finances as it would do if no such obligation existed. A nation in this position must avoid every sort of waste; it must avoid every experiment that might be undertaken by the nation which would involve abnormal expenditures; it must refrain from adopting any policy of conquests which would swell its budget; it must reduce its administrative expenses to what is absolutely necessary until such time as it shall have regained full freedom of action through having paid off all its creditors. It is easy to realize how large an amount could be made available in the German budget by following a policy of this kind, which is the only one that Germany can now rightfully pursue. The Treaty of Versailles has carefully limited the military strength which Germany is allowed to maintain. In this respect alone she will expend an amount vastly inferior to her outlay before the war. The same will apply to the navy. She has

no more colonies and is therefore in a position to exist without destroyers, torpedo boats and submarines. This transformation of a military and aggressive empire into a democracy will alone release many billions of francs.

Let us approximate these figures. France with 39 million inhabitants has an ordinary budget of 20 billion francs. An equivalent budget of Germany with a population of 63 millions, would be more than 33 billion francs. But there is another consideration: The figure of 20 billions takes no account of the losses incurred by France. She has an extraordinary budget of 7 billion francs, many sections of which will have to be maintained for a great number of years. This amount must be included starting with the year 1920, which brings our total budget to 27 billion francs. When this is taken into account, the equivalent for the German people would be 40 billion francs.

Let us now examine the details of this budget. Three billion francs should suffice for the normal expenses of a country whose total budget, including ordinary and extraordinary expenditures, did not exceed that figure 12 years ago. In 1906 Germany's figure was 2,400,000,000 Reichs-marks, which was equivalent to 3 billion francs.

Granting that the depreciation of the paper mark justifies an increase of this asset, there would remain about 30 billion francs of yearly income. The Allies are entitled to a preference on this income, which by itself would be sufficient to secure a return on a capital of 500 billions, at the rate of 6 per 100, and on a capital of 600 billions with a rate of 5 per

100. The loan for which these incomes would be pledged may be placed at a figure which would be nearer the last rate mentioned. The way, therefore, is now clear. It will be necessary to have Germany create bonds for the capital of her debt as soon as the amount of the same will have been fixed. Let us not forget that in principle this amount should be equal to the amount of damage ascertained by the Commission of Reparations: if the latter should, for instance, have fixed the amount at 300 billion francs,* that is to say 240 billion gold marks, this would only constitute a yearly charge of 12 billion marks or 15 million francs—that is to say, much less than the revenue available. There would be a considerable margin for the difference of value between the gold mark and the paper mark. These computations are based on the theory that Germany would not be taxed proportionately higher than is France, although there would be nothing excessive in having her taxed higher. When the average charges which are a burden on French taxpayers are computed, the latter are made to include the unfortunate inhabitants of the devastated regions for whom it is a material impossibility to pay taxes. The share of the other inhabitants of France is accordingly increased, and it is this figure thus corrected and increased which should be compared with the German taxes in order to ascer-

* *Note:* as reported to the Reparations Commission French losses recoverable under the treaty amounted to 218½ billion francs as of May 1st, 1921, as compared with British losses of 2½ billion pounds sterling plus 7½ billion francs, Italian losses of 128 million pounds sterling plus 33 billion lire, and Belgian losses of 71 billion francs. See the *Economist* (London) for February 26th, 1921.

tain if they reach the minimum limits fixed by the Versailles Treaty.

The preceding pages furnish points of comparison according to which it is possible to make a first estimate of Germany's capacity to pay. But the latter cannot be mathematically determined in advance. Just as during the last years of the nineteenth century and the first of the twentieth, the economic power of our enemies had increased at an extraordinarily rapid rate, so it is likely that in the future, with the aid of their prolificness and their working spirit, they may resume the march forward upon the road of industrial and agricultural progress which they had begun with such energy.

If in the year 1888, at the time William II ascended the throne, an economist, prophesying, should have mentioned the figures of German production in 1913, he would have been called visionary. Likewise today, whoever would predict the increasing ease with which Germany can meet the annual charge destined to extinguish within a given period the principal of the indebtedness of the Central Powers and their allies toward us, would greatly astonish his audience. It is probable, however, that he would be entirely right. Timid imaginations have been frightened by the amount of hundreds of billions representing the damages caused to the Allies, as if it were a matter of transferring at once a metallic treasury of that amount from the wealth of the vanquished to that of the victors. The problem is not presented thus. The Germans are not called upon to pay this sum at once; they are asked to recognize themselves as debtors

for it and they are given thereafter sufficient time to settle the interest and sinking fund.

The fundamental error of Mr. Keynes and those whom he has led astray has consisted in never establishing a parallel between the burdens of Germany and those of the Allies. He has constantly reasoned as if in the future Germany would have to meet the competition of nations free of all debt, paying little or no taxes, finding themselves by the power of some magic wand in possession of their prewar means. This is the contrary of the truth. In what concerns us, we French have shown the financial effort which we are making at this very time, and we shall not cease to repeat that Germany by merely creating taxes equivalent to ours will have ample enough to settle with us. Mr. Keynes, in a preface which he has just written for the French edition of his book, declares that the events which have taken place since he wrote it have convinced him that the estimates which he gave of the resources of Germany, far from being too low, are probably too high. I hope to have shown the contrary. The English author has singularly misunderstood the economic power of our enemies. He has misunderstood them from both the absolute and the relative point of view. He established no comparison between the agriculture nor between the industry of the Germans and the Allies and of France in particular. He did not analyze the fiscal system of the powers whose return to a normal life should be facilitated. He did not compare the man power loss, more cruel for us in quantity and quality than among any of the other belligerents.

CONCLUSION

Hence the Commission of Reparations need only pursue its work and see to the carrying out of the Versailles Treaty. It should first of all accelerate settlements in kind beginning with coal. It should require the total delivery of the 100 billion marks gold bonds which impose on Germany an annual charge very inferior to her capacities of payment. It has achieved the determination of the amount due by Germany. It should determine the mode of payment of this sum. With Germany knowing the total amount of her debt and each of the Allies able to reckon with the payments secured to it, a first and great step has been accomplished along the road which is to bring us back to the era of balanced budgets and normal finances. The more we study the clauses of the Treaty of June 28th, 1919, the more we examine the respective condition of those who signed it, the more we deem ourselves entitled to proclaim as the conclusion of our work that the title we gave it is the very expression of truth, "The Peace of Justice." Hardly just for the victors, to whom it assures only part of the sums expended and to be expended by them; just toward the vanquished, on whom it only imposes burdens which do not exceed their means. The unwillingness of France to admit a committee comparable to the Dawes one from functioning at an early date clearly shows her inability to judge of the "justice" of Versailles, which without serious modification by France & would forced to the modification would have rendered Germany prostrate as would [illegible] a result of pure "just

APPENDIX

PROTOCOL OF THE REPARATIONS COMMISSION

(April 28th, 1921)

The Reparations Commission has in accordance with Article 232 of the Treaty of Versailles proceeded to define the time and manner for securing and discharging the entire obligation of Germany for reparation under Articles 231, 232 and 233 of the Treaty as follows:

This determination is without prejudice to the duty of Germany to make restitution under Article 238 or to other obligations under the Treaty.

(1) Germany will perform in the manner laid down in this schedule her obligation to pay the total fixed in accordance with Articles 231, 232 and 233 of the Treaty of Versailles by the Commission, *viz.*, 132,000,000,000 gold marks, less (a) the amount already paid on account of reparation; (b) sums which may from time to time be credited to Germany in respect of State properties in ceded territory, etc., and (c) any sums received from other enemy or ex-enemy Powers in respect of which the Commission may decide that credit should be given to Germany, plus the amount of the Belgian debt to the Allies, the amounts of these deductions and additions to be determined later by the Commission.

(2) Germany shall create and deliver to the Commission in substitution for bonds already delivered or deliverable under Paragraph 12c of Annex 2, Part VIII, Treaty of Versailles, bonds hereafter described.

(a) Bonds for the amount of 12,000,000,000 gold marks. These bonds shall be created and delivered at the latest on July 1st, 1921. There shall be an annual payment from funds to be provided by Germany as prescribed in this schedule in each year from May 1st, 1921, equal in amount to 6% of the nominal value of the issued bonds, out of which there shall be paid interest at 5% per annum payable half yearly on the bonds outstanding at any time, and the balance to a sinking fund for redemption of bonds by annual drawings at par. These bonds are hereinafter referred to as bonds of Series A.

(b) Bonds for a further amount of 38,000,000,000 gold marks. These bonds shall be created and delivered at the latest on November 1st, 1921. There shall be an annual payment from funds to be provided by Germany as prescribed in this schedule in each year from November 1st, 1921, equal in amount to 6% of the nominal value of the issued bonds, out of which there shall be paid interest at 5% per annum, payable half yearly, on the bonds outstanding at any time and the balance to a sinking fund for the redemption of the bonds by annual drawings at par. These bonds are hereinafter referred to as bonds of Series B.

(c) Bonds for 82,000,000,000 gold marks, subject to such subsequent adjustment by creation or can-

celation of bonds as may be required under the first paragraph. These bonds shall be created and delivered to the Reparations Commission without coupons attached at the latest on November 1st, 1921. They shall be issued by the Commission as and when it is satisfied that the payments which Germany is required to make in pursuance of this schedule are sufficient to provide for the payment of interest and sinking fund on such bonds. There shall be an annual payment from funds to be provided by Germany as prescribed in this schedule in each year from the date of issue by the Reparations Commission equal in amount to 6% of the nominal value of the issued bonds, out of which shall be paid interest at 5% per annum payable half yearly on the bonds outstanding at any time and the balance to a sinking fund for redemption of the bonds by annual drawings at par. The German Government shall supply to the Commission coupon sheets for such bonds as and when issued by the Commission. These bonds are hereinafter referred to as bonds of Series C.

(3) The bonds provided for in Article 2 shall be signed by the German Government as bearer bonds in such form and in such denominations as the Commission shall prescribe for the purpose of making them marketable, and shall be free of all German taxes and charges of every description, present or future.

Subject to the provision of Articles 248 and 251, Treaty of Versailles, these bonds shall be secured on the whole assets and revenues of the German

Empire and the German States, and in particular on the assets and revenues specified in Article 7 of this schedule. The service of bonds A, B, C shall be a first, second and third charge respectively on said assets and revenues, and shall be met by payments to be made by Germany under this schedule.

(4) Germany shall pay in each year until the redemption of bonds provided for in Article 2 by means of a sinking fund attached thereto: (1) the sum of 2,000,000,000 gold marks. (2) (a) A sum equivalent to 25% of the value of her exports in each period of twelve months, starting from May 1st, 1921, as determined by the Commission, or (b) alternatively, an equivalent amount as fixed in accordance with any other index proposed by Germany and accepted by the Commission. (3) A further sum equivalent to 1% of the value of her exports, as above defined or, alternatively, an equivalent amount fixed as provided in Paragraph B above. Provided always that when Germany shall have discharged her obligations under this schedule, other than her liability in respect of outstanding bonds, the amount to be paid in each year under this paragraph shall be reduced to the amount required in that year to meet the interest and sinking fund on the bonds then outstanding.

Subject to the provisions of Article 5, the payments to be made in respect of Paragraph 1 above shall be made quarterly on or before January 15th, April 15th, July 15th and October 15th, each year, and payments in respect of Paragraphs 2 and 3

above shall be made quarterly on or before February 15th, May 15th, August 15th and November 15th and calculated on the basis of exports in the last quarter but one preceding that quarter, the first payment to be made on or before November 15th, 1921, to be calculated on the basis of exports in the three months ending July 31st, 1921.

(5) Germany shall pay within twenty-five days from this notification 1,000,000,000 gold marks in gold or approved foreign currencies or approved foreign bills or in drafts at three months on the German Treasury, endorsed by approved German banks and payable in pounds sterling in London, in francs in Paris, in dollars in New York or any currency in any other place designated by the Commission. These payments will be treated as the two first quarterly instalments of payments provided for in Article 4, Paragraph 1.

(6) The Commission will within twenty-five days from this notification, in accordance with Paragraph 12A, Annex 2, of the Treaty as amended, establish a special sub-commission to be called the Committee on Guarantees. The Committee on Guarantees will consist of representatives of the Allied Powers now represented on the Reparations Commission, including a representative of the United States in the event of that Government desiring to make an appointment. The Committee shall comprise not more than three representatives of nationals of other Powers whenever it shall appear to the Commission that a sufficient portion of the bonds to be issued under this schedule is held by

nationals of such Powers to justify their representation on the Committee on Guarantees.

(7) The Committee on Guarantees is charged with the duty of securing the application of Articles 241 and 248 of the Treaty of Versailles.

It shall supervise the application to the service of the bonds provided for in Article 2 of the funds assigned as security for the payments to be made by Germany under Paragraph 4. The funds to be assigned shall be: (a) The proceeds of all German maritime and land customs and duties, and in particular the proceeds of all import and export duties. (b) Proceeds of a levy of 25% on the value of all exports from Germany except those exports upon which a levy of not less than 25% is applied under legislation referred to in Article 9. (c) The proceeds of such direct or indirect taxes or any other funds as may be proposed by the German Government and accepted by the Committee on Guarantees in addition to, or in substitution for, the funds specified in (a) or (b) above.

The assigned funds shall be paid to the accounts to be opened in the name of the Committee and supervised by it in gold or in foreign currencies approved by the Committee. The equivalent of the 25% levy referred to in Paragraph B shall be paid in German currency by the German Government to the exporter.

The German Government shall notify to the Committee on Guarantees any proposed action which may tend to diminish the proceeds of any of the

assigned funds and shall, if the Committee demands it, substitute some other approved funds.

The Committee on Guarantees shall be charged further with the duty of conducting on behalf of the Commission the examination provided for in Paragraph 12B of Annex 2 to Part VIII, of the Treaty of Versailles, and of verifying on behalf of the Commission and, if necessary, of correcting the amount declared by the German Government as the value of German exports for the purpose of calculation of the sum payable in each year or quarter under Article IV, Paragraph 2, and the amounts of the funds assigned under this Article to the service of the bonds. The Committee shall be entitled to take such measures as it may deem necessary for the proper discharge of its duties.

The Committee on Guarantees is not authorized to interfere in the German administration.

(8) In accordance with Paragraph 19, Clause 2 of Annex 2, as amended, Germany shall on demand, subject to prior approval of the Commission, provide such material and labor as any of the Allied Powers may require toward restoration of the devastated areas of that Power, or enable any Allied Power to proceed with the restoration or the development of its industrial or economic life. The value of such material and labor shall be determined in each case by a valuer appointed by Germany and an agreement, by a referee nominated by the Commission. This provision as to valuation does not apply to deliveries under Annexes 3, 4, 5 and 6, Part VIII, of the Treaty.

(9) Germany shall take every necessary measure of legislative and administrative action to facilitate the operation of the German Reparation (Recovery*) Act of 1921 in force in the United Kingdom and of any similar legislation enacted by any Allied Power so long as such legislation remains in force.

The payments effected by the operation of such legislation shall be credited to Germany on account of payments to be made by her under Article IV, Clause 2. The equivalent in Germany currency shall be paid by the German Government to the exporter.

(10) Payments for all services rendered, all deliveries in kind and all receipts under Article 9 shall be made to the Reparations Commission by the Allied Power receiving the same in cash or current coupons within one month of the receipt thereof and shall be credited to Germany on account of payments to be made by her under Article 4.

(11) The sums payable under Article 4, Clause 3, and any surplus of receipts by the Commission under Article 4, Clauses 1 and 2, in each year not required for payment of interest and sinking fund on bonds outstanding in that year, shall be accumulated and applied so far as they will extend, at such times as the Commission may think fit, by the Commission in paying simple interest not exceeding 2½% per annum from May 1st, 1921, to May 1st, 1926, and thereafter at a rate not exceeding 5% on the balance of the debt not covered by bonds then issued. The interest on such balance of the debt shall not be cumulative. No interest therefor shall

be payable otherwise than as provided in this paragraph.

(12) The present schedule does not modify the provisions for securing the execution of the Treaty of Versailles which are applicable to the stipulations of the present schedule.

THE END



